

City of Waterville, Maine

Financial Report

June 30, 2008

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macdonaldpage & CO LLC

Certified Public Accountants and Management Advisors

Independent Auditors' Report

City Council
City of Waterville
Waterville, Maine

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waterville, Maine, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed on the table of contents. These financial statements are the responsibility of the City of Waterville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Waterville, Maine, as of June 30, 2008, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2009, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Macdonald Page & Co LLC

South Portland, Maine
January 7, 2009

MANAGEMENT'S DISCUSSION & ANALYSIS – FIRST DRAFT

As management of the City of Waterville, we offer this narrative overview and analysis of the financial activities of the City of Waterville for the fiscal year ended June 30, 2008.

FINANCIAL HIGHLIGHTS

- Total net assets of the City of Waterville for year ended June 30, 2008 are \$24,481,907. A portion of that amount, \$8,913,437, is a net investment in capital assets while the largest portion, \$11,955,711, remains unrestricted. These numbers do not include another \$1,877,129 of net assets attributed to the City's library. The decrease in net investment in capital assets from the prior year is due to the sale of the Lockwood Mills - Hathaway Building.
- The ending fund balance for the general fund is \$10,353,558. This is an increase of \$1,261,846 over last year. The increase is due to State revenue sharing money and excise tax activity being larger than expected, a growth in investment earnings, and expenditures overall being less for the City than budgeted. Unused departmental appropriated funds contribute to the fund balance increase.
- The General Funds undesignated and school fund balance of \$10,353,558 equals 27.4% of total revenues for the year or 29.6% of total expenditures. The percentages place the City of Waterville at a strong fund balance amount for bonding purposes. Moody and Standard & Poor's bond rating agencies like to see a fund balance rate in the 14% to 16% range or an amount equal to two months of budgeted expenditures. The City of Waterville's current fund balance exceeds both requirements.
- City-wide governmental revenues include \$16,924,959 of tax revenue, a decrease of \$1,355 from the year ended June 30, 2007 and \$20,863,945 of intergovernmental, program and general revenues.
- City-wide governmental expenses were \$34,810,232, an increase of \$1,830,950 from the year ended June 30, 2007.
- The City's Capital Projects Fund Balance was \$2.5 million as of June 30, 2008. This was increase of \$0.3 million from the end of the prior fiscal year. It represented appropriations to and investment in public works equipment, paving, the airport, and other projects.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

The City of Waterville's Basic Financial Report has three components: (1) Government-Wide Financial Statements, (2) Fund Financial Statements, and (3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

All of the funds of the City of Waterville are reported using the economic resources measurement focus and the accrual basis of accounting as prescribed by GASB Statement No. 34. The accrual basis of accounting is similar to the accounting method used by non-public businesses, in that, revenues and expenditures are recorded in the current year regardless of when the revenue is collected or paid out.

Government-Wide Financial Statements

- Government-wide financial statements report information on all of the non-fiduciary activities of the City Governmental activities which are normally supported by taxes and intergovernmental revenues.
- The City of Waterville's financial statements are comprised of a series of statements such as The *Statement of Net Assets* and the *Statement of Activities*. These statements provide an overview of the activities of the government as a whole.
- The Statement of Net Assets provides a picture of the difference between assets and liabilities (including infrastructure). This is called *Net Assets*. The Statement of Activities provides a look at how the Net Assets have changed from the prior year to the current year. Increases or decreases in net assets can show whether the City is improving or deteriorating. Other factors such as changes in the City's Property tax base and the condition of the roads also need to be considered to assess the overall health of the City.

Fund Financial Statements

- The Fund Financial Statements provide details of the City's most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, management establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. Examples of funds within the City's Financial Statements follow.
- *General Fund* – This is the primary operating fund for the City. Most of the City's basic services are reported in the general fund. The governmental fund statements provide a detailed *short-term* view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- *Landfill Closure Fund* – This is a major fund that accounts for landfill closure costs.
- *Fiduciary Funds* – These funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. The City is the trustee, or *fiduciary*, for Trust Funds that are set up primarily as scholarships or funds for people in need. These assets, because of a trust arrangement, can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-34 of this document.

THE CITY AS A WHOLE

The following information is a condensed version of the Statement of Net Assets.

	Governmental Activities		Library	
	2008	2007	2008	2007
Current and other assets	\$ 19,968,959	\$ 17,738,693	\$ 1,877,129	\$ 1,779,776
Capital assets, net	25,373,340	26,796,671		
Total assets	<u>45,342,299</u>	<u>44,535,364</u>	<u>1,877,129</u>	<u>1,779,776</u>
Long-term debt outstanding	17,779,666	18,048,635		
Other liabilities	3,080,726	3,099,457		
Total liabilities	<u>20,860,392</u>	<u>21,148,092</u>		
Net assets:				
Invested in:				
Capital assets	8,913,437	9,992,626		
Restricted	3,612,759	225,000		
Unrestricted	11,955,711	13,169,646	1,877,129	1,779,776
Total net assets	<u>\$ 24,481,907</u>	<u>\$ 23,387,272</u>	<u>\$ 1,877,129</u>	<u>\$ 1,779,776</u>

The increase to net assets in the City's governmental activities is due mostly to the addition of cash and equivalents and investments increasing. Capital assets, which include property, plant, equipment, and infrastructure, are generally defined by the City as assets with an initial, individual cost of greater than or equal to \$5,000 (five thousand dollars) and an estimated useful life in excess of one year. The reduction in this area came primarily from the sale of the Hathaway Building in the Lockwood Mills complex. By far the largest portion of the City's net assets reflects its cash and investments and its investment in capital assets less any related debt to acquire those assets still outstanding. There were no significant new bonds issued in the current year. Details of the activity of capital assets and long-term debt can be found in the footnotes.

The following schedule, *the Statement of Activities*, focuses on changes in net assets of the City's governmental activities.

Changes in Net Assets:

	Governmental Activities		Library	
	2008	2007	2008	2007
Program Revenues:				
Charges for services	\$ 2,951,550	\$ 2,257,890	\$ 19,669	\$ 24,741
Operating grants and contributions	17,600,480	17,963,919	713,790	634,327
Capital grants and contributions	766,810	71,599		
	<u>21,318,840</u>	<u>20,293,408</u>	<u>733,459</u>	<u>659,068</u>
General Revenues:				
Property and other taxes	16,729,841	16,871,220		
Licenses, permits and fees	408,925	339,513		
Grants and contributions not restricted to specific programs	3,304,450	3,199,807		
Investment earnings	450,999	519,091	(142,874)	221,915
Unclassified	474,414	784,456		
Gain (loss) on disposition of capital assets	(368,636)	(14,232)		
	<u>20,999,993</u>	<u>21,699,855</u>	<u>(142,874)</u>	<u>221,915</u>
Total Revenues	<u>42,318,833</u>	<u>41,993,263</u>	<u>590,585</u>	<u>880,983</u>
Program Expenses:				
General government	3,070,065	2,796,205		
Public works	4,101,245	3,800,518		
Public safety	4,817,529	4,504,461		
Parks, recreation, and culture	682,906	532,916		
Health and welfare	296,191	232,520		
Education	24,577,862	22,822,907		
Program expenditures	586,043	180,293		
TIF projects	9,686	541,896		
Unclassified	1,128,178	744,331		
Capital outlay	733,506	103,720		
Interest on debt	443,123	618,237		
Library expenses			493,232	549,268
Total Expenses	<u>40,446,334</u>	<u>36,878,004</u>	<u>493,232</u>	<u>549,268</u>
Change in Net Assets	<u>1,872,499</u>	<u>5,115,259</u>	<u>97,353</u>	<u>331,715</u>
Net Assets, Beginning of Year (Restated)	<u>22,609,408</u>	<u>18,272,013</u>	<u>1,779,776</u>	<u>1,448,061</u>
Net Assets, End of Year	<u>\$ 24,481,907</u>	<u>\$23,387,272</u>	<u>\$ 1,877,129</u>	<u>\$ 1,779,776</u>

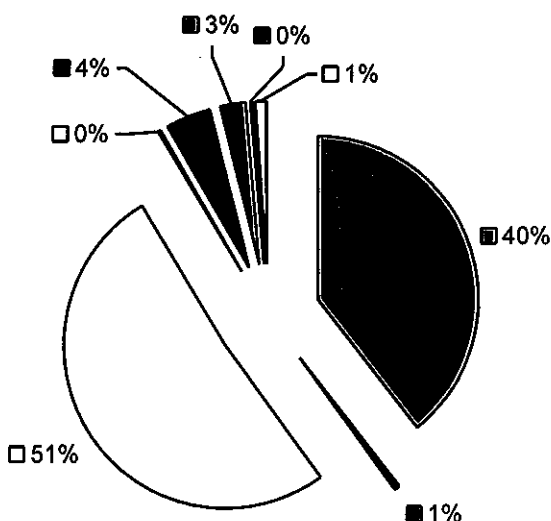
The cost of all governmental activities this year was \$40,446,334 which represents almost a \$3,568,330 increase. Of this amount, Waterville taxpayers financed \$16,729,841 through property, personal and excise taxes. Municipal and educational departments have aggressively pursued grant revenue to cover programs and services and to help reduce the tax burden to Waterville residents.

Special revenue fund program expenses are expenditures from City and School funds such as the city recreation and airport funds and school programs such as the lunch program and other specifically funded programs. These programs are found in the "All Other Governmental Funds" section of this report.

Capital outlay represents the net amount paid for items that are capital in nature and major repairs. Interest on debt indicates the debt service amounts paid from the City and School general fund and the TIF fund.

Governmental Activities

2008 Governmental Fund Revenues



■ Taxes	■ Licenses and Permits	□ Intergovernmental	□ Fees and Fines
■ Education-other	■ City Charges for Service	■ Unclassified	□ Investment Earnings

Taxes

Includes real property, personal property and excise taxes

Licenses and permits

Includes city clerk and code enforcement revenue

Intergovernmental

Includes State revenue sharing, homestead, veterans and welfare reimbursement, State road grant

Education – other

Includes tuition, fees, Medicaid reimbursement revenue

City service charges

Includes revenue from the various departments for services

Fees and fines

Includes fees for late dog registrations, witness fees

Investment earnings

Includes interest income from general fund investment money

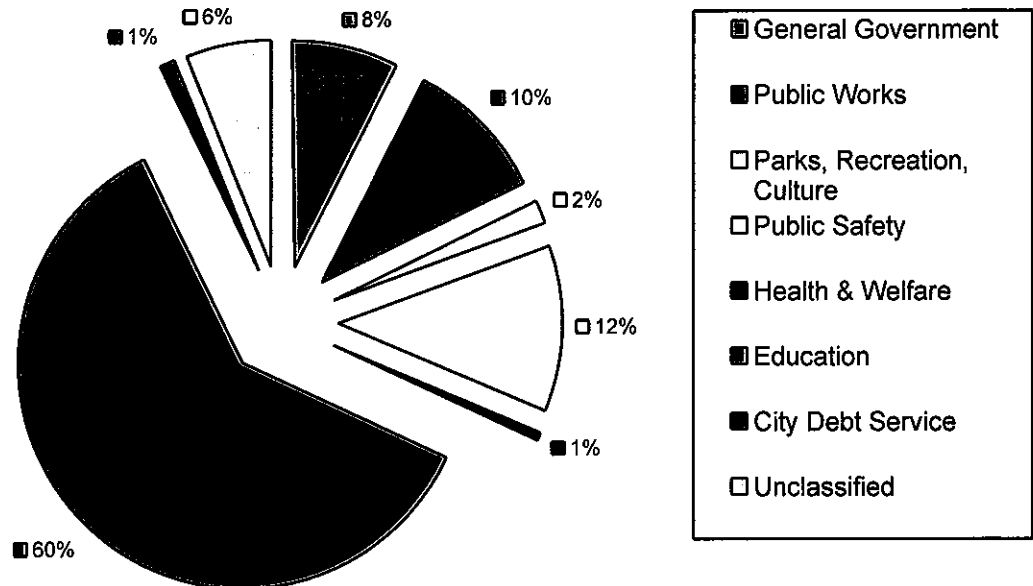
Unclassified

Includes miscellaneous revenue, grant revenue, sale of City assets

As the revenue chart shows, the major sources of revenue for the City of Waterville are taxes and intergovernmental revenue.

Governmental Activities Continued

2008 General Fund Expenditures



As the above chart indicates, education is the department with the largest expenditure with public safety and public works in second and third place.

GENERAL FUND BUDGETARY HIGHLIGHTS

The majority of changes to the original budget approved by the City Council, during the fiscal year, were transfers to other funds. The changes amounted to an increase of 1.41% to the budget.

The City continues to meet its responsibilities for sound financial management. This year the City exceeds a fund balance percentage range preferred by bond rating agencies such as Moody's and Standard & Poor's. Carefully monitoring expenditures, finding non-tax sources of revenue, and setting a debt repayment ceiling have all helped in establishing a favorable fund balance. Having the fund balance at an appropriate level is important when the City goes to bond. The rating agencies also prefer a fund balance that will cover two months of actual appropriations. The City actually can cover about three and one-half months. The residents of the City of Waterville can be proud of its municipal and school personnel who have worked together to continue to meet these financial goals.

ECONOMIC FACTORS AND THE CITY'S BUDGET

The valuation for the City increased by \$18.4 million or 3.0%. Residential valuation increased \$4.9 million or 0.9% while Personal Property increased \$13.5 million or 20.3%.

The unemployment rate for Waterville at fiscal year end was an estimated 5.4% as compared with 5.0% for the year prior. The rate is above the estimated State average of 5.0%, but below the estimated National rate of 5.7%. These figures are from the August 2008 Maine Labor Market Digest report, which reported on the June unemployment rate.

The 2008/2009 budget adopted by the City Council resulted in a 2.0% decrease in the mill rate from the 2007/2008 year to 24.40 mills. For the 2007/2008 budget year, which is the year this audit covers, the mill rate decreased 3.9% from the 2006/2007 year to 24.90 mills. The 2006/2007 budget adopted by the City Council resulted in a decrease of 3.7% in the mill rate from 26.90 the previous year to 25.90 mills. The 2008/2009 fiscal year represents the sixth consecutive fiscal year the mill rate remained flat or decreased.

Some of the contributing factors to the reduction in property taxes were as follows:

- A budgeted increase of \$150,000 in State Revenue Sharing.
- The school budget funded by the City increased by only 1.6% and therefore redirected funds contributed toward lowering the property tax rate as intended by LD 1.
- The increased valuation as specified above.

LD 1 adopted in 2005, imposes a property tax levy limit which is based on a combination of the State's average personal income growth factor and the property growth factor of each individual municipality. The budget adopted by the City Council was within the limits established by the law.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the City's *Finance Director*, 1 Common Street, Waterville, ME, 04901.

Statement of Net Assets

June 30, 2008

	Primary Government Governmental Activities	Component Unit Library
ASSETS		
Cash and cash equivalents	\$ 8,157,776	\$ 260,370
Investments	9,948,164	1,447,385
Receivables:		
Taxes receivable	1,301,348	
Tax liens	15,823	
Other receivables	41,739	169,374
Intergovernmental	347,202	
Inventory	156,907	
Capital assets, net	25,373,340	
Total Assets	45,342,299	1,877,129
LIABILITIES		
Accounts payable	1,116,412	
Deferred revenues	301,111	
Accrued wages and benefits payable	1,357,351	
Taxes collected in advance	11,701	
Accrued interest	151,485	
Accrued compensated absences	85,568	
Due to agency fund	57,098	
Noncurrent liabilities:		
Due within one year	1,592,194	
Due in more than one year	15,736,385	
Accrued compensated absences	451,087	
Total Liabilities	20,860,392	
NET ASSETS		
Invested in capital assets, net of related debt	8,913,437	
Restricted for:		
Nonexpendable trust principal	228,800	
Expendable for trust designated uses	759,107	
Tax Incentive Financing (TIF) District	1,074,757	
Work in process capital projects	1,550,095	
Unrestricted	11,955,711	1,877,129
Total Net Assets	\$ 24,481,907	\$ 1,877,129

See accompanying independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Statement of Activities

Year Ended June 30, 2008

Functions/programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary	Component
					Governmental Activities	Unit Library
Primary Government:						
Governmental Activities:						
Mayor	\$ 22,535				\$ (22,535)	
Administration	1,383,761	\$ 254			(1,383,507)	
Assessor	140,553				(140,553)	
Information services	516,728	7,489			(509,239)	
Finance department	355,302	34,872			(320,430)	
City clerk	140,661	34,705			(105,956)	
Planning department	75,587	2,650			(72,937)	
Economic development	434,938		\$ 4,700		(430,238)	
Public works	4,101,245	267,642	251,205		(3,582,398)	
Parks, recreation and culture	682,906	120,533			(562,373)	
Police	2,446,129	107,016	96,652		(2,242,461)	
Communication center	363,290	96,339			(266,951)	
Fire	1,928,662	2,347			(1,926,315)	
Code enforcement	79,448	342			(79,106)	
Health and welfare	296,191				(296,191)	
Airport	546,024	389,693			(156,331)	
Unclassified	1,128,178		339,800		(788,378)	
Program expenses	40,019				(40,019)	
TIF projects	9,686				(9,686)	
Education	24,577,862	1,887,668	16,908,123		(5,782,071)	
Capital outlay	733,506			\$ 766,810	33,304	
Interest on debt	443,123				(443,123)	
Total Governmental Activities	<u>\$40,446,334</u>	<u>\$2,951,550</u>	<u>\$ 17,600,480</u>	<u>\$ 766,810</u>	<u>(19,127,494)</u>	
Component Unit:						
Library	<u>\$ 493,232</u>	<u>\$ 19,669</u>	<u>\$ 713,790</u>			<u>\$ 240,227</u>
General revenues:						
Property taxes					15,172,387	
Excise taxes					1,557,454	
Licenses and permits					240,539	
Franchise fees					158,008	
Fees and fines					10,378	
Grants and contributions not restricted to specific programs:						
State revenue sharing					2,924,537	
Homestead exemption					379,913	
Investment earnings (loss)					450,999	(142,874)
Unclassified					474,414	
Loss on disposal of capital assets					(368,636)	
Total general revenues					<u>20,999,993</u>	<u>(142,874)</u>
Change in net assets					1,872,499	97,353
Net assets - beginning (restated)					<u>22,609,408</u>	<u>1,779,776</u>
Net assets - ending					<u>\$24,481,907</u>	<u>\$ 1,877,129</u>

See accompanying independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Balance Sheet

Governmental Funds

June 30, 2008

	General	Landfill Closure	Other Governmental Funds	Total
ASSETS				
Cash	\$ 8,157,776			\$ 8,157,776
Investments	8,934,368		\$ 1,013,796	9,948,164
Receivables:				
Taxes receivable	1,301,348			1,301,348
Tax liens	15,823			15,823
Other receivables	40,154		6,663	46,817
Intergovernmental	6,460		335,664	342,124
Interfund loans receivable	178,528	\$ 868,676	4,521,631	5,568,835
Inventory	56,332		100,575	156,907
Total Assets	<u>\$18,690,789</u>	<u>\$ 868,676</u>	<u>\$ 5,978,329</u>	<u>\$ 25,537,794</u>

LIABILITIES AND FUND BALANCES

Liabilities				
Accounts payable	\$ 746,232		\$ 370,178	\$ 1,116,410
Accrued wages and benefits payable	1,355,573		1,778	1,357,351
Accrued compensated absences	85,568			85,568
Deferred revenue	670,427		301,111	971,538
Taxes received in advance	11,701			11,701
Due to agency fund	57,098			57,098
Interfund loans payable	5,410,632		158,203	5,568,835
Total Liabilities	<u>8,337,231</u>		<u>831,270</u>	<u>9,168,501</u>

Fund Balances:

Reserved for inventory	56,332		100,575	156,907
Reserved for nonexpendable principal			228,800	228,800
Reserved for capital projects			681,419	681,419
Unreserved, reported in:				
General fund - undesignated	9,396,274			9,396,274
General fund - school	900,952			900,952
Special revenues			2,469,854	2,469,854
Capital projects		\$ 868,676	907,304	1,775,980
Permanent funds			759,107	759,107
Total Fund Balances	<u>10,353,558</u>	<u>868,676</u>	<u>5,147,059</u>	<u>16,369,293</u>

Total Liabilities and Fund Balances \$18,690,789 \$ 868,676 \$ 5,978,329

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	25,373,340
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	670,427
Long-term liabilities that are not due and payable in the current period and, therefore, are not reported in the funds.	
Accrued compensated absences	(451,087)
Accrued interest	(151,487)
Landfill closure liability	(868,676)
Capital leases payable	(797,147)
Bonds payable	(15,662,756)
Net Assets of Governmental Activities	<u>\$ 24,481,907</u>

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2008

	General	Landfill Closure	Other Governmental Funds	Total
Revenues:				
Taxes	\$ 16,924,959			\$ 16,924,959
Licenses and permits	240,539			240,539
Intergovernmental	17,181,403		\$ 4,234,432	21,415,835
Tuition and other charges - Education	1,090,586		352,061	1,442,647
Charges for services - City	469,207		475,837	945,044
Fees and fines	10,378			10,378
Unclassified	1,413,333		86,394	1,499,727
Investment earnings	458,499		(7,500)	450,999
Total Revenues	<u>37,788,904</u>		<u>5,141,224</u>	<u>42,930,128</u>
Expenditures:				
Current:				
Mayor	22,535			22,535
Administration	1,276,504			1,276,504
Assessor	132,357			132,357
Information services	403,140			403,140
Finance department	356,597			356,597
City Clerk	140,574			140,574
Planning department	75,177			75,177
Economic development	373,960		9,199	383,159
Public works	3,517,127			3,517,127
Parks and recreation	453,078		80,624	533,702
Police	2,329,020		83,287	2,412,307
Communication center	358,011			358,011
Fire	1,761,812			1,761,812
Code enforcement	77,568			77,568
Health and welfare	292,465			292,465
Education	21,174,100		3,206,466	24,380,566
County tax	703,210			703,210
Unclassified	52,631		484,725	537,356
TIF projects			9,686	9,686
Capital outlay			2,524,823	2,524,823
Debt service (excluding education)	1,310,366		139,044	1,449,410
Total Expenditures	<u>34,810,232</u>		<u>6,537,854</u>	<u>41,348,086</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,978,672</u>		<u>(1,396,630)</u>	<u>1,582,042</u>
Other Financing Sources (Uses):				
Bond proceeds			916,750	916,750
Sale of municipal property	426,600			426,600
Purchase of municipal property	(125,705)			(125,705)
Transfers in	195,063		2,274,553	2,469,616
Transfers out	(2,212,784)		(256,832)	(2,469,616)
Total Other Financing Sources (Uses)	<u>(1,716,826)</u>		<u>2,934,471</u>	<u>1,217,645</u>
Net Change in Fund Balances	<u>1,261,846</u>		<u>1,537,841</u>	<u>2,799,687</u>
Fund Balances, Beginning of Year (Restated)	<u>9,091,712</u>	<u>\$ 868,676</u>	<u>3,609,218</u>	<u>13,569,606</u>
Fund Balances, End of Year	<u>\$ 10,353,558</u>	<u>\$ 868,676</u>	<u>\$ 5,147,059</u>	<u>\$ 16,369,293</u>

See accompanying independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended June 30, 2008

Net change in fund balances - total governmental funds \$ 2,799,687

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures.

However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

This is the amount by which the cost of assets (\$2,145,024) exceeded depreciation expense (\$1,999,617) in the current period.

145,407

In the statement of activities, the loss on disposal of assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. The change in net assets differs from the change in fund balance by the cost of the assets disposed of (\$1,772,419) and trade-ins/expenses absorbed by the purchaser (\$310,559), net of related accumulated depreciation of (\$651,279).

(810,581)

In the statement of activities, payments made by the purchaser to third parties for assets is reported, whereas in the governmental funds, these process from the sale are not included in financial resources.

(291,250)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

(227,314)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This represents the change in accrued compensated absences (\$175,593) and the reduction in accrued interest (\$62,002).

(113,591)

Capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets (\$178,119). Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets (\$287,541).

109,422

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets (\$965,000). Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets (\$1,225,719).

260,719

Change in Net Assets of Governmental Activities

\$ 1,872,499

**Statement of Revenues, Expenditures and Changes in Fund Balance
Budget (Non-GAAP Budgetary Basis) and Actual - General Fund**

Year Ended June 30, 2008

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$16,483,067	\$16,483,067	\$17,033,185	\$ 550,118
Licenses and permits	202,900	202,900	240,539	37,639
Intergovernmental	15,095,313	15,095,313	15,371,759	276,446
Tuition and other charges for services - Education	1,014,781	1,014,781	1,090,586	75,805
Charges for services - City	424,800	426,000	469,207	43,207
Fees and fines	5,000	5,000	10,378	5,378
Unclassified	1,243,742	1,711,008	1,731,707	20,699
Investment earnings	250,000	250,000	458,499	208,499
Transfers in		149,401	195,063	45,662
Budgeted use of fund balance - City	622,425	502,330		(502,330)
Total Revenues	35,342,028	35,839,800	36,600,923	761,123
Expenditures				
Mayor	20,865	20,865	22,535	(1,670)
Administration	1,519,740	1,503,652	1,276,504	227,148
Assessor	144,400	144,400	132,357	12,043
Information services	393,305	402,975	403,140	(165)
Finance department	358,955	363,872	356,597	7,275
City Clerk	150,880	151,165	140,574	10,591
Planning department	84,220	84,937	75,177	9,760
Economic development	260,460	390,142	373,960	16,182
Public works	3,934,040	3,734,951	3,517,127	217,824
Parks and recreation	473,655	459,155	453,078	6,077
Police	2,352,020	2,356,774	2,329,020	27,754
Communication center	351,750	354,500	358,011	(3,511)
Fire	1,723,615	1,727,469	1,761,812	(34,343)
Code enforcement	80,555	80,555	77,568	2,987
Health and welfare	297,290	298,347	292,465	5,882
Education	19,367,633	19,367,633	19,364,456	3,177
County tax	703,210	703,210	703,210	
Unclassified	71,100	196,100	178,336	17,764
Debt service (excluding education)	1,323,260	1,323,260	1,310,366	12,894
Transfers out	1,731,075	2,175,838	2,212,784	(36,946)
Total Expenditures	35,342,028	35,839,800	35,339,077	500,723
Excess of Revenues Over Expenditures	\$ -	\$ -	1,261,846	\$ 1,261,846
Fund Balance, Beginning of Year (Restated)			9,091,712	
Fund Balance, End of Year			\$ 10,353,558	

See accompanying independent auditors' report.
The accompanying notes are an integral part of these financial statements.

Statement of Fiduciary Net Assets **Fiduciary Funds**

June 30, 2008

	Private- Purpose Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents		\$ 365,599
Investments	\$ 177,952	
Accounts receivable		101,996
Due from student groups		100,265
Total Assets	\$ 177,952	\$ 567,860
LIABILITIES AND NET ASSETS		
Liabilities:		
Due to student groups		\$ 365,599
Amount held for others		202,261
Total Liabilities		\$ 567,860
Net Assets		
Held in trust	\$ 177,952	

Statement of Changes in Fiduciary Net Assets Fiduciary Funds

Year Ended June 30, 2008

	Private- Purpose Trust Funds
Additions	\$ 12,718
Deductions	<u>9,354</u>
Change in Net Assets	3,364
Net Assets, Beginning of Year	<u>174,588</u>
Net Assets, End of Year	<u><u>\$ 177,952</u></u>

Notes to Financial Statements

June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Waterville, Maine (the City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (standards and interpretations), constitute GAAP for governmental units. GAAP also includes guidance from the American Institute of Certified Public Accountants in the publication entitled *State and Local Governments*, and the Financial Accounting Standards Board (when applicable). The City has elected to consistently not follow Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989 as permitted under Governmental Accounting Standards Board Statement No. 20. The more significant of the City's accounting policies are described below.

Reporting Entity

In evaluating how to define the reporting entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit was made by applying the criteria set forth in accounting principles generally accepted in the United States of America. The basic – but not the only – criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise financial accountability. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Application of this criterion and determination of type of presentation involves considering whether the activity benefits the government and is generally available to its citizens. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the government's reporting entity.

Included within the reporting entity:

The following three entities have been included in the reporting entity. The Waterville/Winslow Joint Solid Waste Disposal Facility and the Robert H. Lafleur Airport are not considered to be separate legal entities from the City of Waterville. The financial activity related to these organizations has been included in the appropriate funds of these financial statements. The Waterville Public Library is a separate legal entity but has met the criteria of a component unit due to the City's financial accountability. A brief description of these three entities follows:

Waterville/ Winslow Solid Waste Disposal Core

The Waterville/Winslow Solid Waste Disposal Core has its own Board of Directors. The appointment of the majority of the members of the Board is controlled by the City of Waterville. Decisions made by the Disposal Core Board are subject to the approval of the City of Waterville. The Disposal Core Board functions solely as a steering committee and does not control any financial resources of the landfill or transfer facility. All of the financial activity of the landfill and transfer facility flows through the accounting records of the City and is controlled by the Waterville City Council.

Robert H. Lafleur Airport

The airport is not a legally separate entity from the City of Waterville and, therefore, all of the airport's financial activity has been reported in these financial statements in the general and capital project funds.

Notes to Financial Statements

June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Waterville Public Library

Waterville Public Library has a separate Board appointed by the City. The City also funds approximately \$365,000 of the Library's annual expenditures of approximately \$495,000. In addition to general operation, the Library Board controls a substantial amount of trust funds held for the benefit of the Library. The Library is considered a component unit and is included in the government-wide financial statements.

Joint Venture - The City of Waterville has entered into a joint venture with another entity. This joint venture is considered to be a separate reporting entity and has not been included within the financial statements of the City. The joint venture is as follows:

Kennebec Regional Development Authority (FirstPark) was formed in 1998 through an act of the Maine State legislature. Its primary purposes according to the act were to strengthen the financial condition of local governments within the geographic territory of the authority, while combining resources and sharing costs for meeting regional economic development needs and challenges; to promote and develop infrastructure and programs for employment and economic development opportunities and other conditions to positively affect regional development. The intent was that the members would fund the start-up costs and then all benefit from the tax revenues later on. There are currently 24 local governments who are members of the Authority including the City of Waterville.

The Authority derives the bulk of its revenue from the participants. In fiscal year 2008 the City of Waterville contributed \$79,136, which was 13.48% of the municipal member contribution. On June 30, 2008 First Park's net assets totaled a deficit of \$1.8 million. Complete financial statements may be obtained from Kennebec Regional Development Authority/FirstPark at P.O. Box 246, Oakland, ME 04963.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been eliminated from these statements. Governmental activities are primarily supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. The City has elected not to allocate indirect costs among the programs, functions and segments. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Notes to Financial Statements

June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as certain compensated absences and claims and judgments, are recorded only when the payment is due.

Those revenues susceptible to accrual are property taxes, interest, and charges for services. Other receipts and taxes become measurable and available when cash is received by the City and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Landfill Closure is a major fund. It accounts for landfill closure costs.

Additionally, the City reports the following fund type:

Fiduciary funds account for assets held by the City in a trustee capacity or as an agent on behalf of others. The City's fiduciary funds include the following fund types:

Private-purpose trust funds are used to report all trust arrangements (other than pension and investment trust funds) under which principal and income benefit individuals, private organizations, or other governments.

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. The funds are used to account for assets that the City holds for others in an agency capacity.

Notes to Financial Statements

June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City. State statutes authorize the City to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds and repurchase agreements.

Investments are stated at fair value.

Interfund Receivables/Payables

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which the transactions are executed.

Inventories

Inventories are valued at cost, which approximates market, using the first-in, first-out (FIFO) method. The costs of governmental fund-type inventories are generally recorded as expenditures when consumed rather than when purchased. Some items in the special revenue fund have been recorded as assets and the related fund balances are reserved for these amounts because these "inventories" do not constitute expendable available financial resources. Certain inventory is on hand at the Public Works garage. This inventory, made up of parts, gasoline and oil, has been expensed as purchased.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal repairs and maintenance that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the assets' estimated useful lives ranging from 3 to 40 years.

For all capital assets - buildings, vehicles, equipment - the City elects to use the Depreciation Approach as defined by Statement No. 34 for reporting.

This process determined the original cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition. Original costs were developed in one of three ways: 1) historical records; 2) standard unit costs appropriate for the construction/acquisition date; or 3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight-line, unrecovered cost method was computed using industry accepted life expectancies for each capital asset. The book value was then computed by deducting the accumulated depreciation from the original cost.

Notes to Financial Statements

June 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements. No current expenditure is reported for these amounts in the fund financial statements. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as "terminal leave" prior to retirement.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs if material to the basic financial statements, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers.

Use of Estimates

Preparation of the City's financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent items at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Notes to Financial Statements

June 30, 2008

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Each year the Mayor submits to the City Council a budget for the ensuing fiscal year and an accompanying message. The Mayor's message explains the budget both in fiscal terms and in terms of the work programs. It outlines the proposed financial policies of the City for the coming fiscal year; describes the important features of the budget; indicates any major changes from the current year in financial policies, expenditures, and revenues, together with the reasons for such changes; summarizes the City's debt position; and includes such other material as the Mayor deems desirable. It also describes the tax impact of the proposed budget. The City charter requires that the budget be submitted to the City Council no later than 90 days prior to the beginning of the new fiscal year.

Hearings are held to obtain public comments. The budget is legally enacted by an appropriation order. The order enacts the total City and the total School appropriation. In addition, separate orders are adopted for individual budgeted special revenue funds. Any revisions to the budget that alter total expenditures must be approved by the Council.

All unexpended appropriations lapse at year-end unless specific approval is granted to carry forward such amounts. Department level total expenditures should not exceed appropriations.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting - under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation - is utilized in the governmental funds. For reporting under accounting principles generally accepted in the United States of America, encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

On-behalf payments, which represent a contribution to the Maine State Retirement System made by the State of Maine on-behalf of the School Department is recorded as a revenue and expense under GAAP and have been excluded from both revenue and expenditures on the budgetary basis of accounting.

Excess of Expenditures Over Appropriations

For the year ended June 30, 2008, expenditures exceeded appropriations in the following departments. These amounts will lapse to fund balance at year-end.

Council	\$ 1,670
Communication Center	3,511
Information Services	165
Fire	34,343

Deficit Fund Balances

The individual Special Revenue Funds carrying fund deficits as of June 30, 2008 are as follows:

Community Development Program	\$ 5,517
Office Equipment	7,860
Police	56,586

All will be funded by future program income.

Notes to Financial Statements

June 30, 2008

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – CONTINUED

Deficit Fund Balances – Continued

The individual Capital Projects Funds carrying fund deficits as of June 30, 2008 are as follows:

School Revolving Renovation Loan Fund	\$ 43,784
North Street Connector Trail	24,684
School Central Office Facility	900
Airport Master Plan – AP15	3,375
Facilities Maintenance Workshop	1,214
Parks & Rec North Street	14,147
Schools - Other	4,410
Airport Parking Apron	80,064

Capital Projects Funds will be funded by future bond proceeds and/or future transfers from the general fund.

NOTE 3 – CASH AND INVESTMENTS

Custodial Credit Risk - Deposits

Primary Government – City of Waterville

Custodial credit risk is that in event of a bank failure, the government's deposits may not be returned to it. The City has a policy whereby all deposits are to be insured by FDIC insurance or when the amount of deposit balances exceeds FDIC insurance the balance in excess of FDIC insurance must be collateralized. The City does not have a policy for custodial credit risk. As of June 30, 2008, \$1,593 of the City's bank balance of \$8,104,422 was exposed to custodial credit risk.

The above custodial credit risk resulted from a few of the City's certificate of deposits maintaining a balance greater than \$100,000. As of July 2008 the City no longer allows any newly acquired CD(s) to accrue amounts of principal and interest of over \$100,000 to reside with any issuing institution. Also the FDIC insurance now insures such deposits up to \$250,000 (as of October 3, 2008 up to and until December 31, 2009).

Component Unit – Waterville Public Library

Custodial credit risk is that in event of a bank failure, the government's deposits may not be returned to it. The Library does not have a policy for custodial credit risk. As of June 30, 2008, \$23,870 of the Library's bank balance of \$272,192 was exposed to custodial credit risk.

Notes to Financial Statements

June 30, 2008

NOTE 3 – CASH AND INVESTMENTS – CONTINUED

Investments

Primary Government – City of Waterville

Maine statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. Agencies, repurchase agreements, and certain corporate stocks and bonds. As of June 30, 2008, the City had the following investments and maturities:

	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	No Maturity
Repurchase agreements	\$ 7,231,322	\$7,231,322			
U.S. Treasuries	1,468,612	445,876	\$ 690,540	\$ 332,196	
U.S. Agencies	664,365		351,913	312,452	
Common Stock	471,284				\$ 471,284
Mutual Bond Funds	100,006				100,006
Mutual Funds	12,575				12,575
Total Investments	<u>\$ 9,948,164</u>	<u>\$7,677,198</u>	<u>\$ 1,042,453</u>	<u>\$ 644,648</u>	<u>\$ 583,865</u>

Interest Rate Risk - To the extent possible, the City of Waterville will attempt to match investments with anticipated cash requirements. Maturities will be two years or less for operating fund investments and five years or less for other long term funds. The prior does not apply to trust funds held by the City. The City of Waterville may collateralize its repurchase agreements using longer investments through a Letter of Credit with banks of such standing and quality as the Federal Home Loan Bank of Boston or the Federal Reserve Bank. This policy was formally adopted by the City during the fiscal year ending 2008. The City is in the process of moving all its non- trust funds beyond five years to maturities of five years or less.

Credit Risk - Funds of the City of Waterville may be invested in the following types of securities:

- Obligations of the U.S. government, its agencies and instrumentalities, i.e., Treasury bills. Treasury notes or bonds maturing within one year.
- Insured or fully collateralized certificates of deposit of banks and savings and loan associations.
- Repurchase agreements collateralized by Letters of Credit from such institutions such as Federal Home Loan Bank or the Federal Reserve Bank; or by U.S. Government backed obligations of U.S. Government agencies and corporations. Pledged collateral must be at least 102% of the market value of the principal and accrued interest and marked-to-market daily. A Master Repurchase Agreement must be signed with the bank or dealer and kept on file by the Finance Director.
- Money market mutual funds whose portfolios consist entirely of U.S. Government securities.

Funds may be invested in longer maturities, prime bankers' acceptances and secured commercial paper with an AAA rating according to the Standard & Poor's rating scale upon adoption of a motion of authorization by the majority of the governing body at a regular or special public meeting.

Notes to Financial Statements

June 30, 2008

NOTE 3 – CASH AND INVESTMENTS – CONTINUED

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City has no investments with material exposure to custodial credit risk as this time.

Concentration of Credit Risk – The City places no limit on the amount the City may invest in any one issuer.

Component Unit – Waterville Public Library

	Fair Value	Investment Maturities (in Years)			
		1 - 5	6 - 10	More Than 10	No Maturity
Corporate Bonds	\$ 165,212	\$ 130,159	\$ 33,529	\$ 1,524	
Common Stock	899,779				\$ 899,779
Mutual Funds	145,296				145,296
Money Market, less than 1 year	237,098				237,098
Total Investments	<u>\$ 1,447,385</u>	<u>\$ 130,159</u>	<u>\$ 33,529</u>	<u>\$ 1,524</u>	<u>\$ 1,282,173</u>

Interest Rate Risk – The Library has no investment policy that addresses interest rate risk.

Credit Risk - The Library has no investment policy. As of June 30, 2008 the Library's investment in corporate bonds were rated between BAA2 and AA3 by Moody's and between AA- and A+ by Standard & Poor's.

Concentration of Credit Risk – The Library places no limit on the amount the Library may invest in any one issuer. The following concentration credit risks exist for the following common stock holdings as of June 30, 2008, Exxon Mobil – 11%; AT&T Inc – 4%; Kimberly-Clark – 6%; Verizon Communications Inc – 4%; and JP Morgan – 4%.

NOTE 4 – PROPERTY TAX

Property taxes for the current year were committed on August 15, 2007, on the assessed value listed as of the prior April 1 for all real and personal property located in the City. Assessed values are periodically established by the City's Assessor at 100% of assumed market value.

The City is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay, and amounted to \$235,574 for the year ended June 30, 2008.

Notes to Financial Statements

June 30, 2008

NOTE 4 – PROPERTY TAX – CONTINUED

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The City has the authority to foreclose on property eighteen months after the filing of the lien if the tax liens and associated costs remain unpaid.

Property taxes levied during the year were recorded as receivables at the time the levy was made. The receivables collected during the year and in the first sixty days following the end of the fiscal year have been recorded as revenues. The remaining receivables have been recorded as deferred revenues.

The following summarizes the levy as of and for the year ended June 30, 2008:

Assessed value	\$628,158,256
Tax rate (per \$1,000)	24.90
Commitment	\$15,262,119
Supplemental taxes assessed	<u>77,667</u>
	<u>15,339,786</u>
Less:	
Abatements	28,106
Discounts	
Collections	<u>14,268,044</u>
	<u>14,296,150</u>
Current year taxes receivable at end of year	<u>\$ 1,043,636</u>
Due date(s) – current year	<div> <div>¼ October 12, 2007</div> <div>¼ December 14, 2007</div> <div>¼ March 14, 2008</div> <div>¼ June 13, 2008</div> </div>
Interest rate on delinquent taxes	11.0%
Collection rate	93.2%
Taxes receivable – current year	\$1,043,636
Taxes receivable – prior years	<u>257,712</u>
Total taxes receivable	<u>\$1,301,348</u>

NOTE 5 – CAPITAL ASSETS

In accordance with GASB Statement No. 34, the City has reported all capital assets in the Government-Wide Statement of Net Assets. All capital assets were reported using the basic approach whereby accumulated depreciation and depreciation expense has been recorded. The table below presents summary information on capital assets for the year ended June 30, 2008.

Notes to Financial Statements

June 30, 2008

NOTE 5 – CAPITAL ASSETS – Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance 6/30/2007	Adjustments	Increases	Decreases	Balance 6/30/2008
Governmental Activities:					
Capital assets not being depreciated:					
Land	\$ 1,553,387		\$ 126,587	\$ 27,072	\$ 1,652,902
Construction in progress	2,152,008			1,775,914	376,094
Total capital assets not being depreciated	<u>3,705,395</u>		<u>126,587</u>	<u>1,802,986</u>	<u>2,028,996</u>
Capital assets being depreciated:					
Buildings	24,064,073	\$ (27,026)	400,045	1,556,007	22,881,085
Improvements	5,206,886	(5)	239,384		5,446,265
Vehicles	4,701,695	87,937	811,402	287,159	5,313,875
Equipment	3,374,511	(37,272)	375,813	8,000	3,705,052
Infrastructure	14,519,621	(45,219)	1,967,706		16,442,108
Total capital assets being depreciated	<u>51,866,786</u>	<u>(21,585)</u>	<u>3,794,350</u>	<u>1,851,166</u>	<u>53,788,385</u>
Less accumulated depreciation for:					
Buildings	10,441,713	6,363	704,731	461,763	10,691,044
Improvements	2,563,162	(3,184)	257,801		2,817,779
Vehicles	3,259,575	47,699	342,504	278,345	3,371,433
Equipment	2,454,441	(35,510)	277,870		2,696,801
Infrastructure	10,056,619	393,654	416,711		10,866,984
Total accumulated depreciation	<u>28,775,510</u>	<u>409,022</u>	<u>1,999,617</u>	<u>740,108</u>	<u>30,444,041</u>
Total capital assets being depreciated, net	<u>23,091,276</u>	<u>(430,607)</u>	<u>1,794,733</u>	<u>1,111,058</u>	<u>23,344,344</u>
Government Activities Capital Assets, Net	<u>\$ 26,796,671</u>	<u>\$ (430,607)</u>	<u>\$ 1,921,320</u>	<u>\$ 2,914,044</u>	<u>\$ 25,373,340</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Administration	\$ 118,547
Information services	67,826
Public works (includes infrastructure)	575,514
Parks and recreation	149,016
Police	87,680
Fire	165,265
Program expenditures	107,050
Education	728,719
Total depreciation expense - governmental activities	<u>\$1,999,617</u>

Notes to Financial Statements**June 30, 2008****NOTE 6 – CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One-Year
Governmental activities					
Bonds and notes payable	\$15,923,476	\$ 965,000	\$1,225,720	\$15,662,756	\$1,306,343
Capital leases	906,569	178,119	287,541	797,147	285,851
Compensated absences	349,914	261,161	74,420	536,655	85,568
Landfill liability closure	<u>868,676</u>	<u>-</u>	<u>-</u>	<u>868,676</u>	<u>-</u>
Governmental activity					
Long-term liabilities	<u>\$18,048,635</u>	<u>\$1,404,280</u>	<u>\$1,587,681</u>	<u>\$17,865,234</u>	<u>\$1,677,762</u>

NOTE 7 – CAPITAL LEASE

The Department of Public Schools is engaged in two capital leases, and the City is engaged in one capital lease as of June 30, 2008. The minimum capital lease payments are as follows:

Principal	
2009	\$ 285,851
2010	292,083
2011	107,129
2012	<u>112,084</u>
Total	<u>797,147</u>
Interest	
2009	30,052
2010	23,821
2011	10,455
2012	<u>5,499</u>
Total	<u>69,827</u>
Total payments	866,974
Less interest	<u>69,827</u>
Present value	<u>\$ 797,147</u>

The amount of assets capitalized under these leases is \$2,169,836, of which \$501,276 has been depreciated to date leaving a net book value of \$1,668,560.

Notes to Financial Statements

June 30, 2008

NOTE 8 – LONG-TERM DEBT

Bonds and notes payable at June 30, 2008 are comprised of the following:

	Date of Issue	Original Amount Issued	Date of Maturity	Interest Rate	Balance June 30, 2008
Long-term debt:					
1997 General Obligation Bond	11/1/97	3,880,000	2012	4.35-5.00%	\$ 675,000
1999 General Obligation Bond	7/1/99	4,970,000	2019	3.50-5.50%	3,205,000
2001 State Street Capital Bond	2/1/01	2,021,000	2021	4.25-5.00%	1,321,000
2002S MMBB SRRLF-Loan 1	4/29/02	1,000,000	2011	0.00%	182,480
2002S MMIBB SRB.LF-Loan 2	5/8/02	975,000	2011	0.00%	154,364
2002S MMBB SRRLF-Loan 3	4/29/02	907,000	2011	0.00%	143,597
2002S MMBB SRRF	10/2/02	994,000	2012	0.00%	112,442
2002 General Obligation Bond	11/1/02	5,300,000	2032	2.00-5.00%	4,300,000
2005S School Renovation	4/13/05	538,051	2014	0.00%	183,873
2005 General Obligation Bond	6/14/05	5,285,000	2025	3.50%-4.00%	4,420,000
2007 QZAB Bond	10/9/07	965,000	2022	1.4407%	965,000
Total bonds and notes payable					<u>\$15,662,756</u>

Arbitrage rebate - Pursuant to the Tax Reform Act of 1986, governments issuing tax-exempt bonds or entering into note or lease obligations are required to perform an arbitrage rebate calculation upon the fifth anniversary of the obligation and to remit such rebate to the federal government, subject to certain exceptions. Since August 15, 1986, the effective date of these rules, the City has not been subject to any arbitrage refunds as they have met the exceptions to the arbitrage regulations.

The annual requirements to amortize all long-term debt outstanding as of June 30, 2008 are as follows:

	Principal	Interest	Total
June 30,			
2009	\$ 1,306,363	\$ 607,776	\$ 1,914,139
2010	1,312,200	564,540	1,876,740
2011	1,284,177	519,993	1,804,170
2012	1,162,569	475,042	1,637,611
2013	1,062,783	438,166	1,500,949
2014-2018	4,493,676	1,609,816	6,103,492
2019-2023	3,280,916	738,857	4,019,773
2024-2028	1,080,000	277,325	1,357,325
2029-2033	<u>680,072</u>	<u>84,375</u>	<u>759,375</u>
Total	<u>\$ 15,662,756</u>	<u>\$ 5,315,891</u>	<u>\$ 20,973,574</u>

The City is subject to a statutory limitation, by the State of Maine, of its general long-term debt equal to 15% of the State's valuation of the City. The City's outstanding long-term debt of \$15,662,756 at June 30, 2008 was within the statutory limit.

In the statement of activities the education expenses include \$110,671 of interest expense for the fiscal year ended June 30, 2008.

Notes to Financial Statements

June 30, 2008

NOTE 8 – LONG-TERM DEBT – CONTINUED

In addition to the bonds and notes payable, the City is contingently responsible for the following overlapping debt as of June 30, 2008:

Governmental Unit	Net Debt Outstanding	Applicable To Waterville	City of Waterville's Share of Debt
Kennebec County	\$1,319,650	8.20%	\$108,172

Reimbursement for Debt Service Expenditures - The State of Maine currently reimburses the City for a portion of the financing costs of certain school buildings. Continuation of such reimbursements is dependent upon continued appropriation by the State Legislature.

NOTE 9 – INTERFUND BALANCES

As of June 30, 2008, the balances of interfund loans receivable/payable were as follows:

Fund	Interfund Loans Receivable	Interfund Loans Payable
General Fund	\$ 178,528	\$5,410,632
Landfill Closure Fund	868,676	
Other Governmental Funds	4,521,631	158,203
Totals	<u>\$5,568,835</u>	<u>\$5,568,835</u>

NOTE 10 – MAINE STATE RETIREMENT SYSTEM (MSRS)

Consolidated Retirement Pension Plan - City and School

Description of the Plan - The City and School Department (custodians, school lunch personnel and other non-teacher personnel) contribute to the Maine State Retirement System Consolidated Plan, a cost sharing multiple-employer retirement system established by the Maine State legislature. The Maine State Retirement System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Maine State Legislature establishes and amends benefit provisions. The Maine State Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Consolidated Plan. That report may be obtained by writing to Maine State Retirement, 46 State House Station, Augusta, ME 04333-0046 or by calling 1-800-451-9800.

Funding Policy (City) - Plan members are required to contribute 8% of their annual covered salary and the City is required to contribute an actuarially determined rate. The current rate is 2.9% of annual covered payroll. The contribution rates of plan members and the City are established and may be amended by the Maine State Legislature. The City made no contribution to the Maine State Retirement System Consolidated Plan for the year ended June 30, 2008.

Funding Policy (School Department) - The contribution rates of plan members and the Public Schools are established and may be amended by the Maine State Retirement System Board of Trustees. The School's contribution to the Maine State Retirement System Consolidated Plan for the year ended June 30, 2008 was \$135,578, which equals the required contributions for the year.

Notes to Financial Statements

June 30, 2008

NOTE 10 – MAINE STATE RETIREMENT SYSTEM (MSRS) – CONTINUED

Maine State Retirement - Teachers Group

Description of Plan - All schoolteachers, plus other qualified educators, participate in the Maine State Retirement System's teacher group. The teacher's group is a cost-sharing plan with a special funding situation, established by the Maine State legislature. The Maine State Retirement System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The authority to establish and amend benefit provisions rests with the Maine State Retirement System Board of Trustees. The Maine State Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Teacher's Group. That report may be obtained by writing to Maine State Retirement System, 46 State House Station, Augusta, ME 04333-0046 or by calling 1-800-451-9800.

Funding Policy - Plan members are required to contribute 7.65% of their compensation to the retirement system. The State of Maine Department of Education is required, by the same statute, to contribute the employer contribution which amounts to \$1,809,644 (18.71%) for the fiscal year 2008. This amount has been reported as an intergovernmental revenue and retirement expenditure in the financial statements. There is no contribution required by the School except for federally funded teachers, for which the School contributed 18.71% of their compensation. This cost is charged to the applicable grant.

NOTE 11 – DEFERRED COMPENSATION PLAN

The City of Waterville offers all its employees not participating in Maine State Retirement a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan permits participating employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The City amended the plan in accordance with the provisions of IRS Section 457(g). Assets of the plan were placed in trust for the exclusive benefit of participants and their beneficiaries. The requirements of that IRC Section prescribes that the City no longer owns the amounts deferred by employees, including the related income on those amounts. Accordingly, the assets and the liability for the compensation deferred by plan participants, including earnings on their plan assets, were removed from the City's basic financial statements.

NOTE 12 – TAX INCREMENT FINANCING DISTRICT

The City has established seven tax increment-financing districts under the terms of applicable State laws.

The **Kennedy Memorial Drive District** was established in 1992 to finance certain infrastructure improvements. The expenditures for these improvements will be recouped in the future years via an incremental tax levied upon the District's so-called "captured assessed value". The bonds issued to fund the improvements are limited obligations of the City, payable solely from the monies pledged under the indenture consisting of tax increment revenues and an irrevocable funding commitment from Wal-Mart Stores, Inc. The bonds do not constitute or create any debt or liability of or on behalf of the State of Maine or the City of Waterville. The tax increment will be used expressly for the repayment of principal and interest on the indebtedness created to fund the expenditures of the improvements. Expenditures related to the project have been recorded in the Capital Project Fund.

Notes to Financial Statements

June 30, 2008

NOTE 12 – TAX INCREMENT FINANCING DISTRICT – CONTINUED

In September 1994, the Development Program and Financial Plan for the TIF District was amended to allow the use of additional tax increment revenue to provide funds to create and fund the Waterville Downtown Job Retention Fund. The State authorized the City to capture 80% of the incremental assessed value to be used to finance first the original bond debt services payments and then the downtown job retention activities. The remaining 20% of property tax revenues from incremental assessed value will be paid to the City's General Fund. The City has retained the right to further amend the designation of the TIF District and its Development Program consistent with the provisions of Section 5253 of the Title 30-A of the Maine Revised Statutes, as amended.

In August 1996, the City established the **Upper Main Street Tax Increment Financing Development District**. The District is designed to provide incentives for the revitalization of a major retail corridor in the City of Waterville. By using a mechanism known as a credit enhancement agreement, the City will return a portion of new tax revenues generated within the District to the developer as new taxable value is created. Under the agreement, the City returns 75% of newly generated tax revenues to the developer in years one through five of the project, and 50% in years six through twenty of the project.

In July 2000, the City established **The Chinnet Company Tax Increment Financing District**. The purpose of the District is to secure the City of Waterville's industrial job base and to ensure the long-term economic stability and well being of the Chinnet Company Plant. The project provides the City with additional tax revenues and a potential long-term increase in employment without an increase in demand for local service. The overhauling of machinery and equipment at the Chinnet Company Plant added approximately \$8,157,301 of new tax base to the City of Waterville. Chinnet will finance the improvements within the District. The City will not assume any financial liability within the District. Under the T.I.F. District Credit Enhancement Agreement, the appropriate percentages of new tax revenues will be reinvested into the District to support the cost of capital investment. The design is intended to capture the appropriate percentage of new investment above the current base value of \$2,320,230. For municipal assessed values in excess of this amount from investment made in the first five years of the T.I.F. ending April 1, 2005, the resulting tax revenue will be distributed 75% to the Chinnet Company for the first ten years following the year in which the investment is made and 50% in years ten through fifteen following the year in which investment is made through the Credit Enhancement Agreement.

In October 2002, the City established the **Airport Park Tax Increment Financing and Development District**. The District is designed to create and save jobs, and improve infrastructure (Century Drive and Airport Road). The City will retain 100% of the captured assessed value. This will be used to fund the Airport Park T.I.F. District Development Program Sinking Fund. The sinking fund shall consist of the captured assessed value earnings less the monies necessary for repayment of debt incurred from the initial construction of Century Drive and the continuation of Airport Road and less the monies to fund the credit enhancement reimbursements as may be required. Credit enhancement reimbursements may not exceed 75% for years one through five, and 50% for years six through fifteen for the manufacturing sector. The non-manufacturing sector may receive credit enhancement reimbursements not exceeding 50% for years one through ten.

In December 2004, the City established the **Downtown Redevelopment Tax Increment Financing District**. The City of Waterville is authorized to capture 100% of the increased assessed value of real and personal property in the district as set forth in the financial plan section of the application received initially by the State on February 3, 2005, and in final form May 24, 2005. The tax increment arising from this captured value is to be used expressly for the project costs described in the Development Program, i.e. potential credit enhancement agreements (CEA) with developers and owners of site specific real estate projects; and other eligible project costs in the downtown, including capital costs, financing costs, professional services, and administrative expenses.

Notes to Financial Statements

June 30, 2008

NOTE 12 – TAX INCREMENT FINANCING DISTRICT – CONTINUED

In October 2006, the City established the **Lockwood Mills Tax Increment Financing District**. The purpose of the District is to generate substantial economic benefit for the City and its residents, including employment opportunities, broadened and improved tax base and economic stimulus. The City of Waterville is authorized to capture 100% of the increased assessed value of real and personal property in the district as set forth in the Financial Plan. The tax increment arising from this captured value is to be used expressly for the project costs described in the Development Program, i.e. potential credit enhancement agreements (CEA) with developers and owners of site specific real estate projects; and other eligible project costs, including capital costs, financing costs, professional services, and administrative expenses.

In February 2007, the City established the **Mid-State Machine Products Tax Increment Financing District**. The purpose of the District is to secure the City of Waterville's industrial job base and to ensure the long-term economic stability and well being of Mid-State Machine Products. The project provides the City with additional tax revenues and a potential long-term increase in employment without an increase in demand for local service. Mid-State Machine Products will finance the improvements within the District. The City will not assume any financial liability within the District. Under the T.I.F. District Credit Enhancement Agreement, the appropriate percentages of new tax revenues will be reinvested into the District to support the cost of capital investment. The design is intended to capture the appropriate percentage of new investment above the current base value of \$1,275,000. For municipal assessed values in excess of this amount from investment made in the first five years of the T.I.F. ending February 20, 2012, the resulting tax revenue will be distributed 50% to Mid-State Machine Products for the first five years following the year in which the investment is made, 40% in years six through ten, 30% in years eleven through fifteen, and 20% in years sixteen through twenty following the year in which investment is made through the Credit Enhancement Agreement.

NOTE 13 – CONTINGENT LIABILITIES

Grant Funds - The City participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Other Contingent Liabilities - The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's management, the resolution of these matters will not have a material adverse effect on the financial condition of the City.

NOTE 14 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws require that the City place a final cover on its landfills when waste is no longer accepted and perform certain maintenance and monitoring functions at the post closure thirty years after closure. Closure and post closure costs are based on landfill capacity used to date. Since the landfill is no longer operational, 100% capacity has been assumed.

The Capital Project Fund - Landfill Closure has been established to provide financial assurance for the closure and post closure care costs. As of June 30, 2008, the Landfill Closure Fund had a fund balance of \$868,676, which is considered to be adequate to cover future expenditures.

The estimated total current cost of landfill closure and post closure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor and maintain the landfill were required as of June 30, 2008. Actual cost may be higher due to inflation, changes in technology, and changes in laws or regulations.

Notes to Financial Statements

June 30, 2008

NOTE 15 – RISK MANAGEMENT - CITY

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors, and omissions, and natural disasters for which the City either carries commercial insurance, or participates in public entity risk pools or is effectively self-insured. Currently, the City participates in a public entity risk pool sponsored by the Maine Municipal Association.

Based on the coverage provided by this pool, as well as coverage provided by commercial insurance purchased, the City is not aware of any material actual or potential claim liabilities which should be recorded at June 30, 2008.

NOTE 16 – RESTATEMENT OF BEGINNING FUND BALANCE/NET ASSETS

The following discloses the restatement of governmental fund balances as of the beginning of the fiscal year:

	General Fund	Other Governmental Funds
Fund balance, beginning of year, as previously stated:	\$ 9,074,344	\$ 4,024,832
Increase due to correction of prior reconciling journal entries causing an understatement in cash for prior year	9,508	
Increase due to reclass to Special Revenue Fund	7,860	(7,860)
Decrease due to restatement of Medicaid Special Revenue balance		(29,092)
Decrease due to reclass of unearned grant revenue from fund balance to payable		(365,475)
Other		(13,187)
Fund balance, beginning of year, as restated	<u>\$ 9,091,712</u>	<u>\$ 3,609,218</u>

The following discloses the restatement of government wide net assets as of the beginning of the fiscal year:

Primary Government:

Net assets, beginning of year, as previously stated:	\$ 23,387,272
Decrease due to removal of Hathaway Windows fund balance	(365,475)
Decrease due to restatement of Medicaid Special Revenue balance	(29,092)
Decrease due to restatement of School fund balance	(10,229)
Increase due to miscellaneous adjustments made during 2008	9,777
Decrease due to removal of incorrect payables	(2,247)
Decrease due to restatement of the cost of assets	(21,583)
Decrease due to restatement of accumulated depreciation	(409,022)
Other	50,007
Net assets, beginning of year, as restated	<u>\$ 22,609,408</u>

macdonaldpage & coLLC

Certified Public Accountants and Management Advisors

Independent Auditors' Report on Additional Information

City Council
City of Waterville
Waterville, Maine

Our report on our audit of the basic financial statements of the City of Waterville as of and for the year ended June 30, 2008 appears on page 1. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Waterville's basic financial statements. The accompanying schedules on pages 36 through 43 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

South Portland, Maine
Date

Special Revenue Funds Combining Balance Sheet

June 30, 2008

	400	410	540	550	260	270	320	
	Community Development Program	TIF Projects Fund	Recreation Fund	Airport Fund	Archives Clerk	Police Grants	Office Equipment	School Funds
								Total
ASSETS								
Accounts receivable				\$ 1,585				\$ 1,585
Due from other governments								\$ 335,664
Inventory				86,399				14,176
Interfund loans receivable	\$ 359,958	\$ 1,074,757	\$ 41,786	18,025	\$ 2,101			1,368,788
								2,865,415
Total Assets	\$ 359,958	\$ 1,074,757	\$ 41,786	\$ 106,009	\$ 2,101	\$ -	\$ -	\$ 3,303,239
LIABILITIES AND FUND BALANCES								
Liabilities:								
Deferred revenues								\$ 301,111
Accounts payable	\$ 365,475			1,778				365,475
Accrued wages						\$ 56,586	\$ 7,860	1,778
Interfund loans payable								64,446
Total Liabilities	\$ 365,475			1,778		56,586	7,860	732,810
Fund Balances (Deficit):								
Reserved for inventory				86,399				14,176
Unreserved:								
Undesignated	(5,517)	\$ 1,074,757	\$ 41,786	17,832	\$ 2,101	(56,586)	(7,860)	1,403,341
Total Fund Balances (Deficit)	(5,517)	1,074,757	41,786	104,231	2,101	(56,586)	(7,860)	2,469,854
								2,570,429
Total Liabilities and Fund Balances	\$ 359,958	\$ 1,074,757	\$ 41,786	\$ 106,009	\$ 2,101	\$ -	\$ -	\$ 3,303,239

See accompanying independent auditors' report on additional information.

Special Revenue Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2008

	400	410	730	540	550	260	270	320	
	Community Development Program	TIF Projects Fund	Downtown Job Sinking Retention Fund	Recreation Fund	Airport Fund	Archives Clerk	Police Grants	Office Equipment	
Revenues:									
Federal programs							\$ 96,652		\$ 3,068,456
State programs									101,513
Local programs									201,001
Charges for services				\$ 67,076	\$ 391,278	\$ 17,483			352,061
Unclassified				67,076	391,278	17,483	9,554		9,554
Total Revenues				<u>67,076</u>	<u>391,278</u>	<u>17,483</u>	<u>106,206</u>		<u>3,723,031</u>
									<u>4,305,074</u>
Expenditures:									
Community services	\$ 9,199								9,199
Recreation				80,624					80,624
Police							83,287		83,287
Education									
Adult education									1,902,323
Food services									369,324
TIF projects		\$ 9,686							934,819
Debt service		139,044							9,686
Unclassified					438,524	15,382			139,044
Total Expenditures	<u>9,199</u>	<u>148,730</u>		<u>80,624</u>	<u>438,524</u>	<u>15,382</u>	<u>83,287</u>		<u>3,206,466</u>
									<u>453,906</u>
									<u>3,982,212</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(9,199)</u>	<u>(148,730)</u>		<u>(13,548)</u>	<u>(47,246)</u>	<u>2,101</u>	<u>22,919</u>		<u>322,862</u>
Other Financing Sources:									
Transfers in		896,606	\$ 34,376	55,335	151,480				1,137,797
Transfers out		(41,876)		(47,956)	(43,887)	(4,829)			(138,548)
		<u>854,730</u>	<u>34,376</u>	<u>7,379</u>	<u>107,593</u>	<u>(4,829)</u>			<u>999,249</u>
Net Change in Fund Balances	<u>(9,199)</u>	<u>706,000</u>	<u>34,376</u>	<u>(6,169)</u>	<u>60,347</u>	<u>(2,728)</u>	<u>22,919</u>		<u>1,322,111</u>
Fund Balances (Deficit), Beginning of Year (Restated)	<u>3,682</u>	<u>368,757</u>	<u>(34,376)</u>	<u>47,955</u>	<u>43,884</u>	<u>4,829</u>	<u>(79,505)</u>	<u>\$ (7,860)</u>	<u>1,248,318</u>
Fund Balance (Deficit), End of Year	<u>\$ (5,517)</u>	<u>\$ 1,074,757</u>	<u>\$ -</u>	<u>\$ 41,786</u>	<u>\$ 104,231</u>	<u>\$ 2,101</u>	<u>\$ (56,586)</u>	<u>\$ (7,860)</u>	<u>\$ 2,570,429</u>

See accompanying independent auditors' report on additional information.

Capital Projects Combining Balance Sheet

June 30, 2008

ASSETS

Accounts receivable	\$ 5,078
Interfund loans receivable	<u>2,521,806</u>

Total Assets	\$ <u>2,526,884</u>
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LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$ 4,703
Interfund loans payable	<u>64,782</u>
Total Liabilities	<u>69,485</u>

Fund Balances:

Reserved	1,550,095
Unreserved:	
Designated	615,234
Undesignated	<u>292,070</u>
Total Fund Balances	<u>2,457,399</u>

Total Liabilities and Fund Balances	\$ <u>2,526,884</u>
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Capital Projects

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2008

	Balance June 30, 2007	Inter- Governmental and Miscellaneous Revenue	Bond Issue	Expenditures	Operating Transfer In (Out)	Balance June 30, 2008
School						
Jr. High Air Quality II	\$ 22,088					\$ 22,088
Albert Hall Air	5,023					5,023
George Mitchell Athletic Field	4,481					4,481
School Revolving Renovation Fund	(43,784)					(43,784)
Other			\$ 916,750	\$ 921,160		(4,410)
Central Office Facility	(900)					(900)
Municipal						
Fire Station	22,405				\$ (22,405)	
City Hall Improvements	54,216				(54,216)	
Topographic Map Update	8,032			1,744	(6,288)	
Muskie Roof	(2,384)				2,384	
Records Management	44,301					44,301
Voting Machines	30,000				15,500	45,500
Recodify Ordinances	15,000				(15,000)	
City Hall Boiler	(57,117)				57,117	
Downtown Lights	(3,107)				3,107	
Fuel Island	1,827				(1,827)	
Silver Street Project	(1,537)				1,537	
Public Works Equipment	135,234			143,098	205,000	197,136
Fire Engine	(20,000)	\$ 20,000				
Waterfront Project	601,069					601,069
Police/Fire Study	320				(320)	
North Street Connector Trail	(14,544)			10,140		(24,684)
Other	18					18
Unallocated	206,119	283,575		314,300	33,678	209,072
Balances - Forward	<u>1,006,760</u>	<u>303,575</u>	<u>916,750</u>	<u>1,390,442</u>	<u>218,267</u>	<u>1,054,910</u>

Capital Projects**Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Continued**

Year Ended June 30, 2008

	Balance June 30, 2007	Inter- Governmental and Miscellaneous Revenue	Bond Issue	Expenditures	Operating Transfer In (Out)	Balance June 30, 2008
Balances - Forwarded	\$ 1,006,760	\$ 303,575	\$916,750	\$ 1,390,442	\$ 218,267	\$ 1,054,910
Housing Rehabilitation	(7,373)	125,300		117,500	(427)	
Public Works Salt/Shed	174,968			235,406	76,000	15,562
Fire Station Phase II						
Airport Apron - AIP14	21,576	162,274		102,530		81,320
Airport Apron - AIP15		131,625		135,000		(3,375)
Recreational Courts	32,832					32,832
Pavement Management	87,561			57,130		30,431
Sidewalks - Downtown CDBG	(23,910)	14,953		186	9,199	56
Community Gateway	7,800				(7,800)	
Airport Parking Apron (beginning bal restated)	(83,157)	3,093				(80,064)
North Street Construction						
North Street Rec Trail	436					436
Main Street Revitalization	50,000			75,442	25,442	
Silver Street Project	(1,900)				1,900	
Silver Street Community Enterprise	(1,401)	41,495				40,094
Accounting System	3,298			128,770	140,000	14,528
Landfill	868,676					868,676
Facilities Maintenance Workshop				151,214	150,000	(1,214)
Quarry Road Project				8,500	10,000	1,500
Parks & Rec North Street				14,147		(14,147)
Mayflower Street					29,057	29,057
Park & Rec Trail Revenue		45,990				45,990
Airport Capital Improvement Fund	69,430	15,345		8,000	6,205	82,980
Pavement Rehab				100,556	358,383	257,827
Totals	<u>\$ 2,205,596</u>	<u>\$ 843,650</u>	<u>\$916,750</u>	<u>\$ 2,524,823</u>	<u>\$ 1,016,226</u>	<u>\$ 2,457,399</u>

Permanent Funds Balance Sheet

June 30, 2008

ASSETS

Interfund loans receivable	\$ 3,087
Investments	<u>1,013,794</u>
Total Assets	<u>\$ 1,016,881</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Interfund loans payable	\$ 28,974
Total Liabilities	<u>28,974</u>

Fund Balances:

Reserved for nonexpendable principal	228,800
Unreserved	<u>759,107</u>
Total Fund Balances	<u>987,907</u>

Total Liabilities and Fund Balances	<u>\$ 1,016,881</u>
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Permanent Funds Combining Statement of Revenues, Expenses and Changes in Fund Balance

Year Ended June 30, 2008

	Fund Balances Beginning of Year		Contributions and Gifts	Investment Income	Expenditures	Fund Balances End of Year	
	Principal	Unexpended Income				Principal	Unexpended Income
City Funds:							
Haines Charity	\$ 100,000	\$ 468,382		\$ (14,494)	\$ 22,438	\$ 100,000	\$ 431,450
Frank Champlin Teachers Fund	100,000	279,243		(1,680)	3,687	100,000	273,876
Sarah Pray Fund		1,489		41	3		1,527
Mildred Pray Ware fund	5,000	45,237		2,538	4,253	5,000	43,522
Violet Smith Fund		1,061		49	4		1,106
Marr Charity		(1,806)		883	159		(1,082)
Boothby Fountain		170		8	1		177
"470" Engine Fund		1,069	\$ 3,800	112	8	3,800	1,173
Mary Warren Fund	10,000	1,597		552	215	10,000	1,934
George Mitchell Fund	10,000	4,784		691	51	10,000	5,424
Total City Funds	\$ 225,000	\$ 801,226	\$ 3,800	\$ (11,300)	\$ 30,819	\$ 228,800	\$ 759,107

Private-Purpose Trust Funds - School Funds

Combining Schedule of Changes in Fiduciary Net Assets

For the Year Ended June 30, 2008

	Balances Beginning of Year	Additions	Deductions	Balances End of Year
Private Purpose Trust Funds:				
Buford Grant Scholarship	\$ 16,891	\$ 640	\$ 675	\$ 16,856
W. A. Donovan Fund	3,355	127	134	3,348
Wentworth Fund	20,800	789	829	20,760
Flora Harriman Small Fund	64,690	2,411	4,707	62,394
Gladys Briggs Walker Fund	9,238	350	368	9,220
Tina Thompson Poulin Drama Fund	6,821	259	273	6,807
Rene Plante Scholarship	4,386	166	175	4,377
Myra Stearns	11,143	422	444	11,121
Faculty Gowns Account	1,929	73	77	1,925
Messalonskee Fish and Game	9,254	352	370	9,236
Track Resurfacing	14,612	6,695	845	20,462
Ron LaPlante Scholarship Fund	9,879	374	394	9,859
Janice H. & Cynthia V. Scholarship Fund	1,590	60	63	1,587
Total Private Purpose Trust Funds	\$ 174,588	\$ 12,718	\$ 9,354	\$ 177,952